

ARMISTONG ECONOMICS™

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The fate of Britain has an interesting timing twist. Britain was forced off the Gold Standard in the 1931 Currency Crisis. That was the bottom of the Depression for the UK. Historically, there has been a lag in the US compared to the UK economy. Even politically, Thatcher was elected before Reagan. The elections coming up in the UK can be a preview of what is to come in the USA. Economic trends show the potential for Britain to bottom on its currency in 2011. There is an odd crack into which Britain could emerge. Remaining out of the Euro was a wise move. If Britain were to restructure along the lines I have proposed in a equity for debt swap, it can emerge as the alternative to the dollar & the Euro for those who don't trust the Yuan. The Euro has foreclosed the way the Great Depression was resolved. In 1919, US, Germany & France were on the edge of bankruptcy. Germany went into Hyper-inflation in early 20s UK & France clung to the gold standard with the latter amassing the greatest reserve in Europe. This policy imposed deflation & drove asset values down since the supply of gold could not be increased at will. Gold was a zero-sum gain. US was bankrupt in 1896 but WWI made US the food & arms dealer who emerged with #1 reserve of gold. Today, the same policies that created the Depression are alive & well with the IMF demanding deficit reduction & a trend reversal back to balanced budgets. We have accepted perpetual deficits and argue only over percentage.

It is like the old joke a boss asks his secretary to go to bed with him & she says no. He comes in with \$1 million in cash in a briefcase, shows it to her, and says think about. Next day they go to the motel & he gives her \$100. She asks, "what do you think I am?" He says, we already established that we are only arguing over price! We pretend budgets should be balanced but have accepted the fact there are annual deficits and so UK's 11.8% deficit to GDP is seen as too much. We have indeed already established a system where deficits are not viewed as the end of the world nor is there a perception of some fiat crisis. The problem is we borrow to cover the deficit and that fuels the national debts even fostering light-speed growth.

Sovereign Debt consumes the bulk of the economy and take capital away from private growth reducing the economy growth rates. If capital were forced to invest to create jobs, we would have a new economic dawn. We should take the next step and stop the borrowing and tie deficit spending to a fixed rate of GDP matched to population growth. We need a complete restructure and Britain wants the Full proposal, I'm glad to provide it. Britain has a window of opportunity to reclaim some past glory and reemerge as a economic leader. It can be the alternative to Euro & US\$.

The most extreme technical projections warn that we can see a drop Par or even 95cents US by 2011. The big turning point appears to be Dec/JAN. When the pound fell to Par in 1985, it was like putting UK on sale. Capital poured into London & prices soared. With the elections coming May 6th, there does appear to be a minor turning point in May with an opposite trend into Oct with high volatility coming in Nov-Jan.

We must understand, Keynes was correct regarding the gold standard. It force depression only because man could not increase its supply. We have seen massive pouring of cash into the system, but the level-three derivatives (illiquid) still held by the Top 5 US banks, is nearly 1/2 trillion that cannot be converted to cash with JP Morgan Chase holding \$130 billion, this warns that in a Sovereign Debt crisis we could still see a PART-II Banking Crisis. The one thing everyone now understands, these economic tsunamis are coming more frequent. that also emerged in the 1890s with crisis after crisis appearing, 1893, 1896, 1899, 1903 and 1907 effectively 3-4 years apart. We had Asian Crisis 1997, Russia 1998, 2000 .Dot.com, The yen Crisis in 1995. Real Estate Crisis 2007 and the Banking Crisis 2008. For now, 2011-2012 and 2015-16 appear to be crisis years ahead. So hang on Tight. To all my old friends in the UK, I'm there if the powers to be are ready to now make a real change.

America's #1 Political Prisoner

Martin A. Armstrong